

43 ROUTINE COST COMPONENT

All allowable costs not specified for inclusion in another cost category pursuant to these rules shall be included in the Routine cost component subject to the limitations set forth in these Principles,

43.1 Principle. All expenses which providers must incur to meet state licensing and federal certification standards are allowable.

43.2 All inventory items used in the provision of routine services to patients are required to be expensed in the year used. Inventory in excess of the amount used are not an allowable cost. Inventory items shall include, but are not limited to: linen and disposable items.

43.3 Allowable costs shall also include all items of expense efficient and economical providers incur for the provision of routine services. Routine services means the regular room, dietary and nursing services, and the use of equipment and facilities.

43.4 Allowable costs for the Routine component of the rate shall include but not be limited to costs reported in the following functional cost centers on the facility's cost report.

43.41 fiscal services,

43.42 administrative services and professional fees
not to exceed the administrative and management
ceiling,

43.43 plant operation and maintenance including utilities,

43.44 grounds,

43.45 reasonable association dues,

43.46 laundry and linen,

43.47 housekeeping,

43.48 medical records,

43.49 subscriptions related to patient care,

43.410 all employee education, except wages related to initial and
on-going nurse aide training as required by OBRA,

43.411 dietary, excluding food,

43.412 motor vehicle operating expenses,

43.413 clerical,

43.414 transportation, (excluding depreciation),

43.415 office supplies/telephone,

43.416 conventions and meetings within the state of Maine,

43.417 EDP bookkeeping/payroll,

43.418 fringe benefits,

43.419 payroll taxes,

TN# 92-13
Supersedes
TN# 91-12

Approval Date AUG 9 1993

Effective Date OCT 1 1992

See the explanations on pages 19 - 29 for a more complete description of allowable cost in each cost center.

43.42.1 Allowable Administration and Management Expenses.

43.42.1.1 Principle. A ceiling shall be placed on reimbursement for all compensation for administration and policy making functions and all expenses incurred for management and financial consultation, including accounting fees that are incurred by a related organization or the facility's operating company. Any compensation received by the individual who is listed as the administrator on the facility's license for any other services such as nursing, cooking, maintenance, bookkeeping and the like shall also be included within this ceiling. This ceiling shall be increased quarterly by the inflationary factor as defined in Section 91 to reflect the rate of inflation from January 1, 1990 to the appropriate quarter. To establish the prospective rate for nursing facilities the administrative ceiling in effect at the beginning of a facility's fiscal year will apply to the entire fiscal year of that facility.

43.42.1.2 For fiscal years beginning on or after January 1, 1990, professional accounting costs which must be purchased from an unrelated organization will be excluded from the administrative and policy-planning ceiling. These accounting costs will be considered as an allowable routine cost component. Only those necessary and proper accounting costs which are appropriate to the operation of patient care facilities are considered allowable accounting costs.

43.42.2 Ceiling. The administration and policy-planning ceiling that is in effect as of January 1, 1990 is listed below. The ceiling shall be increased quarterly to reflect the rate of inflation from January 1, 1990, to the appropriate quarter.

*up to 30 beds: \$23,817 plus \$489 for each licensed bed in excess of 10;

*31 to 50 beds: \$33,688 plus \$421 for each licensed bed in excess of 30;

*51 to 100 beds: \$42,125 plus \$279 for each licensed be in excess of 50; and

*over 100 beds: \$56,174 plus \$210 for each licensed bed in excess of 100.

In the case of an individual designated as administrator in more than one (1) facility, the Department shall combine the number of beds in these facilities and apply one hundred and

TN# 92-13
Supersedes
TN# 91-12

Approval Date AUG 9 1993

Effective Date OCT 1 1992

twenty percent (120%) of the above schedule. The total allowance will be prorated to each facility based on the ratio of the facility's number of beds to the combined number of beds for all facilities under the direction of the administrator.

43.42.3 Administration Functions. The administration functions include those duties which are necessary to the general supervision and direction of the current operations of the facility, including, but not limited to, the following:

43.42.3.1 Hiring and Firing of personnel.

43.42.3.2 Administrative supervision of the nursing, dietary, and other personnel.

43.42.3.3 Supervising the maintenance of patient records and other records of business, such as for personnel, payroll, and bookkeeping.

43.42.3.4 Supervising the maintenance and repairs of the facility.

43.42.3.5 Procuring necessary supplies and equipment.

43.42.3.6 Administrators, assistant administrators, business managers, controllers, office managers, personnel directors, and purchasing agents, typify those who are included in the administration function category. Bookkeepers, secretaries, clerks, telephone operators, etc., are not included in this category.

43.42.3.7 Central Office operational costs for business managers, controllers, reimbursement managers, office managers, personnel directors and purchasing agents are to be included in the administrative and policy-planning ceiling according to an allocation of those costs on the basis of all licensed beds operated by the parent company.

43.42.3.8 This ceiling is not to include any Director of Nursing, Dietary Supervisor, or other department head, whose prime duties are not of an administrative nature but who may be responsible for hiring or purchasing for their Department.

43.42.4 Dividends and Bonuses. Year end bonuses, dividends, or accruals for the express purpose of giving additional funds to the administrator, or owners, or other employees will not be recognized as allowable costs by the Department.

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Supersedes
TN# 91-12

Approval Date AUG 9 1993

Effective Date OCT 1 1992

43.42.5 Management fees. Management fees charged by a parent company are not allowable costs and are not considered part of the administrative and management ceiling.

43.42.6 Corporate Officers and Directors. Salaries paid to corporate officers and directors are not allowable costs unless they are paid for direct services provided to the facility such as those provided by an administrator or other position required by licensing regulations and included in the staffing pattern which are necessary for that facility's operation.

43.42.7 Central Office Operational Costs. Central office bookkeeping costs and related clerical functions that are not included in the administration and policy-planning ceiling and may be allocated to each facility on the basis of licensed beds limited to the reasonable cost of bookkeeping services if they were performed by the individual facility.

43.42.7.1 All other central office operational costs other than those listed above in this principle are considered unallowable costs.

43.42.8 Administrator in Training. The reasonable salary of an administrator in training will be accepted as an allowable cost for a period of one year provided there is a set policy, in writing, stating the training program to be followed, position to be filled, and provide that this individual obtain an administrator's license and serve as an administrator of a facility in the State of Maine. Prior approval in writing, from the Department, must be issued in advance of the date of any salary paid to an administrator in training. A request for prior approval must be received by the Department at least two (2) weeks prior to the desired effective date of the approval. Failure to become an administrator within one year following completion of the examination to become a licensed administrator will result in the Department of Human Services recovering 100% of the amount allowed of the administrator in training. If the administrator in training discontinues the training program for any reason or fails to take the required examination to become a licensed administrator, 100% of the amount allowed will be recovered.

43.46.1 Laundry services including personal clothing for Medicaid patients.

43.410.1 Cost of Educational Activities

43.410.1.1 Principle. An appropriate part of the net cost of educational activities is an allowable cost.
Appropriate part means the net cost of the activity

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Supersedes
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Approval Date AUG 9 1993

Effective Date OCT 1 1992

apportioned in accordance with the methods set forth in these Principles. Expenses for education activities may be evaluated as to appropriateness, quality and cost and may or may not be included as an allowable cost based on the findings.

43.410.1.2 Orientation, On-the-Job Training, In-Service Education and Similar Work Learning. Orientation, on-the-job training, in-service education and similar work learning programs are not within the scope of this principle but, if provided by a staff person, are recognized as normal operating costs for routine services in accordance with the principles relating thereto.

43.410.1.3 Basic Education. Educational training programs which a staff member must successfully complete in order to qualify for a position or a job shall be considered basic education. Costs related to this education are not within the scope of reimbursement.

43.410.1.4 Educational Activities. Educational activities mean —formally organized or planned workshops, seminars, or programs of study usually engaged in by the staff members of a facility in order to enhance the quality of resident care within the facility. These continuing education activities are distinguished from and do not include orientation, basic education programs, on-the-job training, in-service education and similar work learning programs.

43.411.1.5 Net Cost. The net cost means the cost of an activity less any reimbursement for them from grants, tuition and specific donations. These costs may include: transportation (mileage), registration fees, salary of the staff member if replaced, and meals and lodging as appropriate. Out-of-State programs will be reimbursed for registration fee only.

43.412.1 Motor Vehicle Allowance. Cost of operation of one motor vehicle necessary to meet the facility needs is an allowable cost less the portion of usage of that vehicle that is considered personal. A log which clearly documents that portion of the automobiles use for business purposes is required. Prior approval from the Division of Audit is required if additional vehicles are needed by the nursing facility.

43.5 Principle. Research Costs Costs incurred for research purposes, over and above patient care, are not includable as allowable costs.

43.6 Grants, Gifts, and Income from Endowments

TN# 92-13
Supersedes
TN# 91-12

Approval Date AUG 9 1993

Effective Date OCT 1 1992

43.6.1 Principle. Unrestricted grants, gifts and income from endowments should not be deducted from operating costs in computing reimbursable costs. However, unrestricted Federal or State grants or gifts received by a facility will be used to reduce the operating costs of that facility. Grants, gifts, or endowment income designated by a donor for paying specific operating costs should be deducted from the operating costs or group of costs.

43.6.1.1 Unrestricted grants, gifts, income from endowment. Unrestricted grants, gifts, and income from endowments are funds, cash or otherwise, given to a provider without restriction by the donor as to their use.

43.6.1.2 Designated or restricted grants, gifts and income from endowments. Designated or restricted grants, gifts and income from endowments are funds, cash or otherwise, which must be used only for the specific purpose designated by the donor. This does not refer to grants, gifts or income from endowments which have been restricted for a specific purpose by the provider.

43.6.2 Donations of Produce or Other Supplies. Donations of produce or supplies are restricted gifts. The provider may not impute a cost for the value of such donations and include the imputed cost in allowable costs. If an imputed cost for the value of the donation has been included in the provider's costs, the amount included is deleted in determining allowable costs.

43.6.3 Donation of Use of Space. A provider may receive a donation of the use of space owned by another organization. In such case, the provider may not impute a cost for the value of the use for the space and include the imputed cost in allowable costs. If an imputed cost for the value of the donation has been included in the provider's cost, the amount included is deleted in determining allowable costs.

43.7 Purchase Discounts and Allowances and Refunds of Expenses.

43.7.1 Principle. Discounts and allowances received on purchases of goods or services are reductions of the costs to which they relate. Similarly, refunds of previous expense payments are reductions of the related expense.

43.7.1.1 Discounts. Discounts, in general, are reductions granted for the settlement of debts.

43.7.1.2 Allowances. Allowances are deductions granted for damages, delay, shortage, imperfections, or other causes, excluding discounts and returns.

43.7.1.3 Refunds. Refunds are amounts paid back or a credit allowed on account of an over-collection.

43.7.2 Reduction of Costs. All discounts, allowances, and refunds of expenses are reductions in the cost of goods or services purchased and are not income. When they are received in the same accounting period in which the purchases were made or expenses were incurred, they will reduce the purchases or expenses of that period. However, when they are received in a later accounting period, they will reduce the comparable purchases or expenses in the period in which they are received.

43.7.3 Application of Discounts Purchase discounts have been classified as cash, trade, or quantity discounts. Cash discounts are reductions granted for the settlement of debts before they are due. Trade discounts are reductions from list prices granted to a class of customers before consideration of credit terms. Quantity discounts are reductions from list prices granted because of the size of individual or aggregate purchase transactions. Whatever the classification of purchase discounts, like treatment in reducing allowable costs is required. In the past, purchase discounts were considered as financial management income. However, modern accounting theory holds that income is not derived from a purchase, but rather from a sale or an exchange, and the purchase discounts are reductions in the cost of whatever was purchased. The true cost of the goods or services is the net amount actually paid for them. Treating purchase discounts as income would result in an overstatement of costs to the extent of the discount.

43.7.4 All discounts, allowances, and rebates received from the purchases of goods or services and refunds of previous expense payments are clearly reductions in costs and must be reflected in the determination of allowable costs. This treatment is equitable and is in accord with that generally followed by other governmental programs and third-party organizations paying on the basis of costs.

43.8 Principle. Advertising Expenses. The reasonable and necessary expense of newspaper or other public media advertisements for the purpose of securing necessary employees is an allowable cost. No other advertising expenses are allowed.

43.9 Insurance. Reasonable and necessary costs of insurance involved in operating a facility are considered allowable costs (real estate insurance including liability and fire insurance are included as fixed costs - see subsection 44.14). Premiums paid on property not used for patient care are not allowed. Hospital insurance premiums on employees are an allowable cost if

reasonable. Retirement plans and life insurance plans for employees are an allowable cost. Life insurances premiums related to insurance on the lives of officers and key employees where the provider is a direct or indirect beneficiary are not allowable costs. A provider is a direct beneficiary where, upon the death of the insured officer or key employee the insurance proceeds are payable directly to the provider. An example of a provider as an indirect beneficiary is the case where insurance on the lives of officers is required as part of a mortgage loan agreement entered into for a building program, and, upon the death of an insured officer the proceeds are payable to the lending institution as a credit against the loan balance. In this case, the provider is not a direct beneficiary because it does not receive the proceeds directly, but is, nevertheless, an indirect beneficiary since its liability on the loan is reduced.

43.10 Legal Fees. Legal fees to be allowable costs must be directly related to patient care. Fees paid to the attorneys for representation against the Department of Human Services are not allowable costs. Retainers paid to lawyers are not allowable costs. Legal fees paid for organizational expenses, are to be amortized over a 60 month period.

43.11 Costs Attributable to Asset Sales. Costs attributable to the negotiation or settlement of a sale or purchase of any capital asset (by acquisition or merger) are not allowable costs. Included among such unallowable costs are: legal fees, accounting and administrative costs, appraisal fees, costs of preparing a certificate of need, banking and broker fees, travel costs and the costs of feasibility studies.

43.12 Principle. Bad debts, charity, and courtesy allowances are deductions from revenue and are not to be included in allowable cost.

44 FIXED COSTS COMPONENT

44.1 Fixed Costs include:

- 44.1.1 depreciation on buildings, fixed and movable equipment and motor vehicles,
- 44.1.2 depreciation on land improvements and amortization of leasehold improvements,
- 44.1.3 real estate and personal property taxes,
- 44.1.4 real estate insurance, including liability and fire insurance,
- 44.15 interest on long term debt,
- 44.16 return on equity capital for proprietary providers,
- 44.17 rental expenses,
- 44.18 amortization of finance costs,
- 44.19 amortization of start-up costs and organizational costs

TN# 92-13
Supersedes
TN# 91-12

Approval Date AUG 9 1993

Effective Date OCT 1 1992

- 44.110 motor vehicle insurance,
44.111 facility's liability insurance, including malpractice costs and workers compensation.

See the explanations on pages 28 - 42 for a more complete description of allowable costs in each of these cost centers.

44.2 Principle. An appropriate allowance for depreciation on buildings and equipment is an allowable cost. The depreciation must be:

44.2.1 Depreciation. Allowance for Depreciation Based on Asset Costs

44.2.2 Identified and recorded in the provider's accounting records.

44.2.3 Based on historical cost and prorated over the estimated useful life of the asset using the straight-line method.

44.2.4 The total historical cost of a building constructed or purchased becomes the basis for the straight line depreciation method. Component depreciation is not allowed except on those items listed below with their minimum useful lives:

Electric Components	20 years
Plumbing and Heating Components	25 years
Central Air Conditioning Unit	15 years
Elevator	20 years
Central Vacuum Escalator	20 years
Cleaning System	15 years
Generator	20 years

44.22 Any provider using the component depreciation method that has been audited and accepted for cost reporting purposes prior to April 1, 1980, will be allowed to continue using this depreciation mechanism.

44.23 Where an asset that has been used or depreciated under the program is donated to a provider, or where a provider acquires such assets through testate or intestate distribution, (e.g., a widow inherits a nursing facility upon the death of her husband and becomes a newly certified provider;) the basis of depreciation for the asset is the lesser of the fair market value, or the net book value of the asset in the hands of the owner last participating in the program. The basis of

depreciation shall be determined as of the date of donation or the date of death, whichever is applicable.

44.24 Special Reimbursement Provisions for Energy Efficient Improvements

44.24.1 For the Energy Efficient Improvements listed below which are made to existing facilities, depreciation will be allowed based on a useful life equal to the higher of the term of the loan received (only if the acquisition is financed) or the period by the limitations listed below:

CAPITAL EXPENDITURE

Up to \$5,000.00	- Minimum depreciable period 3 years
From \$5001.00-\$10,000.00	- Minimum depreciable period 5 years
\$10,000.00 and over	- Minimum depreciable period 7 years

44.24.2 The above limitations are minima and if a loan is obtained for a period of time in excess of these minima the depreciable period becomes the length of the loan, provided that in no case shall the depreciable period exceed the useful life as spelled out in the American Hospital Association's "Estimated Useful Lives of Depreciable Hospital Assets".

44.24.3 If the total expenditures exceeds \$25,000.00, then prior approval for such an expenditure must be received in writing from the Department. A request for prior approval will be evaluated by the Department on the basis of whether such a large expenditure would decrease the actual energy costs to such an extent as render this expenditure reasonable. The age and condition of the facility requesting approval will also be considered in determining whether or not such an expenditure would be approvable.

44.24.4 The reasonable Energy Efficient Improvements are listed below:

1. Insulation (fiberglass, cellulose, etc.)
2. Energy Efficient Windows or Doors for the outside of the facility, including insulating shades and shutters.

TN# 92-13
Supersedes
TN# 91-12

Approval Date AUG 9 1993

Effective Date OCT 1 1992